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SUBJECT: RESULTS OF FINANCIAL SYSTEMS ASSESSMENT TEAM VISIT TO THE KURDISTAN REGION OF IRAQ (SECOND OF TWO CABLES)

NOTE: This cable is Part II of a two-part report. See Reftel for Part I. END NOTE

Asayeesh (Special Police)

¶43. (SBU) The Asayeesh (Special Police) has jurisdiction over crimes such as terrorism and terrorist financing. The Asayeesh is set up to be somewhat self-contained so that it can conduct its investigations without alerting a large group of people. Where the Asayeesh have a presence, such as at a station, they have investigative judges devoted to the Asayeesh that follow and coordinate the legal process with felony courts. Prosecutors do not get involved until the case gets to the investigative judge. The Asayeesh also has its own legal department with judicial investigators, who can file for warrants with the investigative courts. There are some senior officers within the Asayeesh who can file for the warrants directly with the court. There are also officers who went to college and studied law who can also file directly with the court. There is also a special economic section within the Asayeesh who coordinates investigations related to terrorist financing.

¶44. (SBU) The Asayeesh noted that terrorist financing in the Kurdistan Region had some unique characteristics. Because of a lack of sympathy by the local population to AQI and related groups, it is difficult for these groups to conduct meaningful fundraising in the Kurdistan Region. According to the Asayeesh, the primary funding and support sources, including weapons, for these groups are foreign intelligence services, with secondary contributions from Zakat (mostly from individuals in Saudi Arabia). The Asayeesh noted that AQ had a strong financial structure under Zarqawi, but that it is less effective now, with AQ relying more on alternate sources including kidnappings, zakat and the smuggling of cash.

¶45. (SBU) The Asayeesh noted a shift away from the use of cash towards the use of goods to raise and move value. The Asayeesh also noted that former regime members abroad often provided funding through this mechanism. Basically, the terrorists and other criminal entities will ship goods into Iraq legally. The goods are whatever is desired on the market, and profit is not the ultimate goal. Rather, the goods are purchased elsewhere, shipped into Iraq, sold inside of Iraq and the money from the sale goes to supporting terrorists or other criminal groups. Because of the connection with Zakat and the increased use of goods, the Asayeesh is increasingly concerned with charities and front companies as vehicles for the movement of terrorist funds.

¶46. (SBU) The Asayeesh noted that it had a cooperative relationship with the money exchangers and transmitters and that this relationship had helped the Asayeesh prevent a number of terrorist attacks including at least two major terrorist operations. This relationship also assisted in the investigation of the May 9th 2007 bombing of the KRG Ministry of Interior in Erbil.

¶47. (SBU) The Asayeesh noted that while the money transmitters were cooperative in this investigation, their efforts were hampered by

the lack of customer identification records, as well as multiple transfers and exchange transactions. The Asayeesh was able to obtain valuable information, but it had to obtain and analyze a great deal of transactional information from the money exchangers because of the lack of customer identification requirements. The money changers and transmitters were unable to verify the identities of the end users of the money they were moving. The Asayeesh has asked the MOI to close down money remitters and exchangers, in the hopes that the public will then use the formal banking sector to conduct money movements, where it will be easier to track said movements, at least in theory.

¶48. (SBU) According to the Asayeesh sources, most of the funding for the PKK is cash smuggled in from Europe and to a lesser extent from Turkey and Iran.

Asayeesh Challenges and Vulnerabilities

¶49. (SBU) The Asayeesh clearly understands the terrorist threat and investigates terrorist financing. While the Asayeesh has developed a beneficial rapport with the money exchange/transmitter sector, they do not have a similar relationship with the MLRO. The Asayeesh could also benefit from formal financial "follow the money" investigative training, but geared more towards a cash-based society, given the current limitations of the Kurdistan Region's banking sector.

Intelligence Sector

¶50. (SBU) The KRG intelligence community is spread across several areas. The Parastin and Zanyari are mainly responsible for external

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intelligence operations while the Asayeesh is mainly responsible for internal intelligence operations. However, the lines between internal and external are not absolute - the Parastin and Zanyari do collect intelligence inside the Kurdistan Region.

¶51. (SBU) All components of the KRG intelligence community recognize the usefulness of financial intelligence - as noted elsewhere in this paper, the KRG intelligence community used financial intelligence to track down the perpetrators of the May 9th MOI attack.

¶52. (SBU) The KRG intelligence community has demonstrated that it has well-developed sources in and outside Iraq. They, like all other sectors of the KRG, would benefit from additional equipment and training - especially Threat Finance training.

Ports of Entry (POEs)

¶53. (SBU) The FSAT did not have the opportunity to visit the primary land ports of entry. The FSAT did, however, have the opportunity to visit the Erbil International Airport (EIA), the primary air port of entry in the Kurdistan Region. The FSAT was able to meet with the EIA representatives responsible for security. The FSAT noted that the EIA was modern, had trained staff and modern security equipment and procedures. Furthermore, there is a major construction project currently underway to build a substantially larger new terminal that will augment the current terminal. It will allow for more planes and handle many more flights in a year. The new terminal is scheduled to be completed by early 2009. The FSAT believes that specialized training on the identification, prevention, and investigation of bulk cash smuggling would be beneficial to selected security and border personnel at POEs throughout Iraq.

Conclusion and Recommended Training

¶54. (SBU) The Kurdistan Region of Iraq is currently in the infancy of developing a modern financial sector. The FSAT notes the KRG's strong political will to combat terrorist financing, particularly involving terrorist groups such as AQI , Ansar Al Sunna, and related

groups, as well as a strong desire for training and technical assistance. The current disconnects between entities within the Kurdistan Region and between the KRG and the Government of Iraq (GOI), hamper overall efforts to combat terrorist financing and money laundering throughout all of Iraq, including the KAR. The FSAT recommends giving serious attention to using technology to create stronger communication among these entities. Most importantly, the Central Bank must re-evaluate its policies and approach to creating a situation in which the public is willing to use the banking sector as its primary way to move and store funds.

¶55. (SBU) Based on our assessment the FSAT team would recommend that priority consideration be given to the following training initiatives: 1) Basic Financial and Regulatory training for the Central Bank employees from both the branches and headquarters; this should include fundamental banking, credit analysis, compliance (anti-money laundering and counterterrorist financing) and information technology courses; 2) Training on the AML law and the AML prosecutions for judges and prosecutors; 3) basic financial crimes investigations training for the MOI and Asayeesh; and 4) Bulk Cash Smuggling training; 5) Threat Finance training for the intelligence community (Note: Because the KRG's training facilities are located in a relatively more secure environment, we strongly urge that USG training initiatives utilize those facilities. Invitations for training should be extended to both KRG personnel and officials from other parts of Iraq, in order to help reduce the Iraq-wide threat of cash smuggling for terrorist financing and money laundering.

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